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Report to Stockholders

NATIONAL TOOL COMPANY

CLEVELAND

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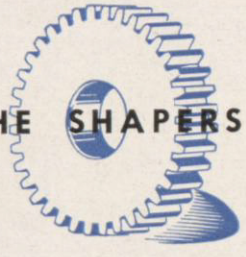
1945

ANNUAL REPORT

OUR FORTY-FIRST YEAR

TOOLS ARE THE SHAPERS OF PROGRESS



NATIONAL TOOL COMPANY . . . . CLEVELAND

DIRECTORS

GEORGE O. DESAUTELS - - - - - - Indianapolis, Indiana
President, George O. Desautels Company

FRED V. GARDNER - - - - - - - - Milwaukee, Wisconsin
Partner, Fred V. Gardner & Associates

GLENN C. GILLESPIE - - - - - - - - - Detroit, Michigan
Partner, A. J. Brandt Company

LEWIS F. JUBENVILLE - - - - - - - - Detroit, Michigan
Partner, A. J. Brandt Company

SAMUEL J. KORNHAUSER - - - - - - - Cleveland, Ohio
Chairman of the Board, National Tool Company

J. VICTOR LOEWI - - - - - - - - Milwaukee, Wisconsin
President, Loewi & Company

JOHN S. PEARSON - - - - - - - - - - New York City
Dobbs & Company

OFFICERS

SAMUEL J. KORNHAUSER - - - - - - - Cleveland, Ohio
Chairman of the Board

LEWIS F. JUBENVILLE - - - - - - - - Detroit, Michigan
President

HARRY W. BARKLEY - - - - - - - - - Cleveland, Ohio
Executive Vice President & General Manager

LIONEL A. SCHMIDT - - - - - - - - - Cleveland, Ohio
Vice President and Chief Engineer

EDWARD G. HARDIG - - - - - - - - - Cleveland, Ohio
Vice President and Sales Manager

LAWRENCE A. HEGENBARTH - - - - - - Cleveland, Ohio
Secretary, Treasurer and Comptroller

LEWIS M. SHAFER - - - - - - - - - - Cleveland, Ohio
Assistant Secretary and Assistant Treasurer

* * * * *

ANTON ERHARDT, SR. - - - - - - - - Cleveland, Ohio
Plant Superintendent

REGISTRAR OF STOCK CENTRAL NATIONAL BANK, Cleveland, Ohio

TRANSFER AGENT OF STOCK NATIONAL TOOL COMPANY, Cleveland, Ohio

ANNUAL REPORT

TO THE STOCKHOLDERS OF NATIONAL TOOL COMPANY

FOREWORD With countless millions of mankind, we joined in fervent thanksgiving when at length the horrible carnage and destruction of the War ended. The collapse of Japan, following so closely the subjugation of our European enemies, gave rise to unexpected problems which necessarily affected our Company. It had been thought that the probable course of events would permit a gradual transition from a military economy to normal, peace-time activities; yet, despite the difficulties which ensued, we were more than content to adjust ourselves to the abrupt change.

Indeed, we were more fortunate than most companies engaged in war production, because our equipment, suitable for making cutting tools required to produce war materials, was equally appropriate to answer the demands of those engaged in manufacturing civilian commodities. Thus, we were in a position to turn immediately to executing orders for cutting tools designed to produce motor vehicles, farm implements, household appliances, railroad equipment, and, in short, all kinds of machinery and mechanical devices. In consequence, our business was by no means completely checked when the war ended. In fact, had it not been for the epidemic of strikes which reduced our larg st customers to inaction, and, in turn, halted their suppliers, we should have been able to proceed with rapid and uninterrupted strides to maximum output.

However, the lull which ensued has not been an unmixed evil. Careful study has been given to modifications in our facilities with the view of meeting indicated increased demands, at reduced costs. The program developed with this end in view has been proceeding rapidly, and will be completed later this year. Thus, though by force of circumstances of world-wide import, our earnings during the second half of the year 1945 were seriously affected, preparations were made during this period which, we have every reason to believe, will yield gratifying results for our stockholders.

Our efforts, moreover, to make this period a distinct era of progress in the history of the Company have not been confined entirely to improvement in equipment and processes; we have also given particular attention to making our executive personnel more effective through smooth coordination and advantageous use of highest aptitudes. The most important step in this direction was the election, last summer, of Mr. Harry W. Barkley to the office of Executive Vice President and General Manager. For many years, he had held various executive positions in The Ford Motor Company. In the short time since August 1, 1945, when he assumed his new duties with us, he has demonstrated his ability to harmonize more effectively the various phases of the business, to obtain maximum effort and co-operation from officers and department heads, as well as to plan and direct operations toward the achievement of greater efficiency and resultant profit.

EARNINGS

Net income for the calendar year 1945, after all charges, interest, depreciation and Federal tax credits and adjustments was $58,420.48 or 25.5 cents per share on the 229,524 common shares outstanding at the end of the year. This compares with $115,048.96 or 51.3¢ per share reported for 1944. Included in the 1944 income, however, was a credit of $40,350.85 representing the proceeds from an officer's life insurance policy. On a comparable basis, therefore, the 1944 income was $74,698.11 or approximately 33.3¢ per share on the 224,444 shares then outstanding. The net income reported for each of these last two years is not subject to Federal Income or Excess Profits Taxes, inasmuch as it results from tax credits rather than from operations.

SALES

Net sales (including all billed shipments and billing for claims arising from terminated contracts) amounted to $2,167,282.10 in 1945, a decrease of 13.4% from the 1944 sales of $2,502,218.97. In the first six months of 1945 our sales were greater by $117,964.86 than those for the first half of 1944. The sharp decrease in the latter half of 1945 is attributable entirely to the sudden end of the war, and the strike-bound situation of our customers.

CERTIFIED STATEMENTS

Included as a part of this report are copies of our Balance Sheet and Surplus Accounts as of December 31, 1945; Statement of Income for the year; Notes to Financial Statements and Accountants' Certificate, as prepared by Haskins & Sells, Certified Public Accountants, who also certified our statements for the years 1944 and 1943.

WORKING CAPITAL

The Balance Sheet reflects working capital of $456,237.14, and a ratio of Current Assets to Current Liabilities of 3:15 to 1. This is the most favorable working capital position the Company has yet shown. Working capital at December 31, 1944 was $299,699.30. A considerable portion of the increase results from provisions of the 1945 Revenue Act whereby the 1945 Carry back claim, and the claim arising from Accelerated Amortization of Emergency Facilities become "quick" claims, payable by the Treasury Department within ninety days from the dates on which they are filed. The Company also held Post War Excess Profits Tax Bonds which were made due and payable on and after January 1, 1946 under the provisions of this same Act. These Post War Bonds were duly presented, and payment was received in January, 1946.

BANK LOANS

The revised Regulation "V" Loan, negotiated in February, 1945, under which the Company could borrow up to $500,000, was terminated by the parties thereto on October 31, 1945 because it appeared that this form of financing was no longer appropriate to our situation.

At the time the "V" Loan was terminated, our Bankers extended to the Company an open line of credit which is regarded as ample for our needs. Up to this time the maximum amount borrowed under this arrangement is $100,000, which is represented by the Note Payable shown on the Balance Sheet as of December 31, 1945.

In addition, a term loan agreement with our Bankers was negotiated, under which the Company may borrow sums up to $300,000 for the purpose of acquiring certain equipment previously in our plant under a lease agreement with Defense Plant Corporation, an agency of the United States Government, and also certain additional machinery designed to increase output, improve efficiency, and expedite deliveries. Under Note "A" in connection with the Financal Statements, the Public Accountants have set forth the essential terms of this agreement. As shown by the Balance Sheet, up to December 31, 1945, $150,000 had been borrowed under this Term Loan, and, as $30,000 of this is due within the next twelve months, this amount has been included in Current Liabilities.

EMERGENCY FACILITIES

Under the privilege allowed by law of accelerating amortization of Emergency Facilities, the Company filed a "quick" claim based thereon for a refund of taxes paid in prior years amounting to $24,984.59. This claim, upon which payment is due in May, 1946, has accordingly, been included in Current Assets. From the Public Accountants' Note "C" it will be seen that Earned Surplus has been charged with $31,752.53 representing the amount of the accelerated amortization applicable to prior years. The Balance Sheet indicates that the Emergency Facilities have been fully amortized.

DIVIDEND

A cash dividend of ten cents per share was paid on August 13, 1945. This dividend was declared on July 31, 1945, on the basis of earnings during the first six months of that year which fully justified the disbursement. The conditions following the end of the War, and the labor conflicts which impeded our customers caused our Company to incur an operating loss in the last half of the year. This made the payment of any further dividend in 1945 inappropriate.

LABOR RELATIONS

Our Union Contract expired November 15, 1945. After protracted negotiations, conducted fairly on both sides, all differences were finally settled, and a new contract was executed on February 12, 1946. This Agreement, we believe, is just and equitable to our men and to the Company. As a result, our relations are friendly and wholesome, and will, we trust, prove mutually beneficial and durable, and continue to inspire honest endeavor and confidence.

MANAGEMENT'S VIEWPOINT

We approach our tasks with a profound realization of the duties we owe to our stockholders who have a primary interest in capable management and financial success of the Company. We are no less mindful of our responsibility to our employees, to the end that they may receive a just share out of what they help to produce by faithful and unstinted effort. Nor shall we forget that we have an obligation to the community in which our plant is located and to the general public, to operate this enterprise so that it may contribute duly to the general welfare.

This does not mean that business shall become a philanthropic institution; neither does it mean that business shall be dominated by public officials; but it does mean that in the legitimate pursuit of adequate profits and dividends, which are the wages of capital, those who direct the course of industry and commerce must take into consideration the rights and reasonable expectations of workmen, competitors and the public. It must be understood, however, that rights and privileges cannot endure unless they are equal and reciprocal, unless they evoke an imperative sense of obligation in those who enjoy them.

This shattered world can be rebuilt, and living standards can be elevated only by ever-increasing productivity. To that end labor must give honest, full measured service and, in return, labor must receive the highest wages which good business practice and the public interest can afford. Moreover, all resources available should be used to promote continuity of employment. The tasks involved are not segregated, not confined to any group or class; they are the concern of all throughout the land. In short, industrial enterprise cannot prosper unless all who have an interest in its success, stockholders, workmen, management, and the public, receive their just due. Unfairness to labor brings on irrepressible conflict with resultant huge losses, keen sorrows and lingering enmities; unfairness to business dries up the sources of individual and national prosperity.

THE FUTURE

The cutting tool industry is basic and indispensible. At the risk of tedious repetition, in order to eliminate persistent misapprehension, we are constrained to point out again that our business is confined almost exclusively to making the highly accurate, small cutting and shaping instruments which our customers use in operating their machine tools. We do not make the machines or machine tools which drive our cutters. Cutting tools, such as we make are used for a vast variety of purposes, and must be constantly replaced as they wear out. Indeed, cutting tools are prerequisite to the manufacture of practically every important mechanical device constructed of metal; and their potential use is as broad as the range of human ingenuity. There was never a time when there was such a lack of needed products as exists today. National Tool Company stands in the presence of an almost limitless field for its products. Management is dedicated to the task of making the most of this opportunity.

By order of the Board of Directors

L. F. JUBENVILLE,
President.

S. J. KORNHAUSER,
Chairman of the Board.

NATIONAL TOO

(INCORPORATE

BALANCE

DECEMBER

ASSETS

CURRENT ASSETS:			
Cash			$ 187,411.06
Accounts receivable:			
Trade	$101,773.24		
Termination claims	36,789.69		
Refund claims — Federal taxes on income	114,025.49		
Other	9,553.39	$262,141.81	
Less reserve for doubtful accounts		5,093.25	257,048.56
Inventories—at lower of cost or market:			
Finished goods	$ 38,414.82		
Goods in process	106,530.34		
Raw materials and supplies	85,831.80	$230,776.96	
Less reserve for loss and obsolescence		7,500.00	223,276.96
Total current assets			$ 667,736.58
MISCELLANEOUS ASSETS:			
Mutual insurance and other deposits, etc.		$ 22,139.16	
Claims for Federal income tax refunds resulting from overassessments and carry-back — net		96,482.15	
Total miscellaneous assets			118,621.31
LAND, BUILDINGS, AND EQUIPMENT—At cost:			
Land		$ 39,103.98	
Buildings, machinery, and equipment, etc.	$679,885.81		
Less reserve for depreciation	281,340.26	398,545.55	
Emergency facilities	$178,802.69		
Less reserve for amortization	178,802.69		
Total land, buildings, and equipment			437,649.53
DEFERRED CHARGES:			
Deferred tool expense		$ 18,508.70	
Prepaid insurance, patent expense, etc.		3,353.87	
Total deferred charges			21,862.57
TOTAL			$1,245,869.99

The Notes to Financial Statements are an

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E SHEET

31, 1945

LIABILITIES

CURRENT LIABILITIES:		
Note payable to bank	$100,000.00	
Current portion of term loan — Note A	30,000.00	$ 130,000.00
Accounts payable:		
Trade	$ 24,474.26	
Other	4,364.11	28,838.37
Accrued salaries, wages, and commissions		24,833.96
Accrued real estate and social security taxes		10,880.53
Miscellaneous accruals		16,946.58
Total current liabilities		$ 211,499.44
NOTE PAYABLE TO BANK (less current portion) — Note A		120,000.00

CAPITAL STOCK AND SURPLUS:			
Common capital stock, $1 par value — authorized, 600,000 shares; issued and outstanding, 229,524 shares — Note B		$229,524.00	
Surplus:			
Paid-in	$136,915.96		
Earned since January 1, 1940	547,930.59	684,846.55	
Total capital stock and surplus			914,370.55
TOTAL			$1,245,869.99

integral part of the above balance sheet.

NATIONAL TOOL COMPANY

STATEMENT OF INCOME

For the Year Ended December 31, 1945

GROSS SALES, LESS RETURNS, ALLOWANCES, AND DISCOUNTS		$2,167,282.10
COST OF GOODS SOLD		1,772,557.12
GROSS PROFIT FROM SALES		$ 394,724.98
SELLING, ADMINISTRATIVE, AND GENERAL EXPENSES		365,263.39
PROFIT FROM OPERATIONS		$ 29,461.59
OTHER INCOME CREDITS		4,061.72
GROSS INCOME		$ 33,523.31
INCOME CHARGES:		
Interest	$ 9,242.00	
Deferred development expense written off	15,363.80	
Other	15,497.03	
Total		40,102.83
NET LOSS BEFORE CREDIT ARISING FROM ESTIMATED CARRY-BACK CLAIM FOR FEDERAL INCOME TAX		$ 6,579.52
CREDIT ARISING FROM ESTIMATED CARRY-BACK CLAIM FOR FEDERAL INCOME TAX		65,000.00
NET INCOME FOR THE YEAR		$ 58,420.48

The Notes to Financial Statements are an integral part of the above statement.

NATIONAL TOOL COMPANY

STATEMENTS OF SURPLUS

For the Year Ended December 31, 1945

EARNED SURPLUS

BALANCE, JANUARY 1, 1945		$ 524,612.95
NET INCOME FOR THE YEAR		58,420.48
GROSS SURPLUS		$ 583,033.43
SURPLUS CHARGES:		
Dividends paid in cash	$22,447.40	
Amortization of emergency facilities for prior years, less $24,984.59 refund of Federal income taxes applicable thereto	6,767.94	
Other Federal income tax adjustments	5.887.50	
Total surplus charges		35,102.84
BALANCE, DECEMBER 31, 1945		$ 547,930.59

PAID-IN SURPLUS

BALANCE, JANUARY 1, 1945	$ 126,915.96
ADD — Excess of proceeds over par value of capital stock issued	10,000.00
BALANCE, DECEMBER 31, 1945	$ 136,915.96

The Notes to Financial Statements are an integral part of the above statements.

NATIONAL TOOL COMPANY

NOTES TO FINANCIAL STATEMENTS

NOTE A — The Company has a term loan agreement which provides for a maximum loan of $300,000. The agreement provides that on June 1, 1946 the Company will issue serial notes in the amount of $15,000 each, maturing July 15, 1946 and quarterly thereafter through October 15, 1949, and the remaining $90,000 on January 15, 1950.

The loan agreement also provides that proceeds from claims for Federal tax refunds resulting from overassessments and carry-backs of approximately $96,000, and a percentage of net earnings for the fiscal year 1946 and thereafter, are to be applied on payment of the notes in the inverse order of maturity.

The loan agreement also contains restrictions as to the amounts of dividends which may be paid and net working capital which must be maintained.

NOTE B — Ten thousand shares of unissued capital stock of the Company are subject to a purchase option by an officer of the Company until August 1, 1950 at a price of $5 a share for the first five thousand shares and $6 a share for the additional five thousand shares.

NOTE C — Depreciation and amortization of emergency facilities applicable to the current year aggregating $75,835.66 are included in the accompanying statement of income, and amortization of emergency facilities of prior years in the amount of $31,752.53 is included in the statement of earned surplus.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TERMINAL TOWER
CLEVELAND 13

ACCOUNTANTS' CERTIFICATE

National Tool Company:

We have examined the balance sheet of National Tool Company as of December 31, 1945 and the related statements of income and surplus for the year ended that date, have reviewed the accounting procedures of the Company, and have examined its accounting records and other evidence in support of such financial statements. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the system of internal control; it was not practicable to confirm receivables from United States Government departments and agencies, but we have satisfied ourselves with respect to such receivables by means of other auditing procedures.

In our opinion, the accompanying balance sheet and statements of income and surplus fairly present the financial condition of the Company at December 31, 1945 and the results of its operations for the year ended that date, in conformity with generally accepted accounting principles and practices applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

March 6, 1946.

SALES OFFICES

EDWARD G. HARDIG
Vice President & Sales Manager

DAVID M. HALLIER
Assistant Sales Manager

BIRMINGHAM, Alabama
Tool Engineering Service

BOSTON, Massachusetts
Richard B. Robinson

BUFFALO, New York
Don W. Patterson

DAYTON, Ohio
R. B. Nuckols

CHICAGO, Illinois
N. W. Dorr

CLEVELAND, Ohio
J. W. McIntyre

DENVER, Colorado
Silver Engineering Works, Inc.

DETROIT, Michigan
Louis Lowy

EAST CLEVELAND, Ohio
D. G. McMillan

HOUSTON, Texas
Harry M. Dunn

INDIANAPOLIS, Indiana
George O. Desautels Co.

MILWAUKEE, Wisconsin
Enstrom-Foster Engineering Co.

MOLINE, Illinois
John J. Normoyle

MUNCIE, Indiana
Charles L. Bunner

NEWARK, New Jersey
H. Wilson Ryno

PHILADELPHIA, Penna.
Otto Wilhelmy & Sons

PITTSBURGH. Penna.
Harris Pump & Supply Co.

PORTLAND, Oregon
Davis Industrial Products Co.

ST. LOUIS, Missouri
John W. Vogler

TOLEDO, Ohio
Fred C. Ahrendt

TULSA, Oklahoma
General Iron & Steel Prod. Co.